



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

March 22, 1999

### **H.R. 973**

### **Security Assistance Act of 1999**

*As ordered reported by the House Committee on International Relations  
on March 4, 1999*

#### **SUMMARY**

H.R. 973 would modify laws dealing with the sale or disposal of military equipment and technology. Because the bill would affect direct spending and receipts, pay-as-you-go procedures would apply.

The bill would authorize an increase in the War Reserve Stockpile for Allies (WRSA) for Korea and Thailand and provide the Secretary of Defense with the authority to transfer items in the WRSA to Korea and Thailand in return for concessions including cash, services, waiver of charges, or other items of value. CBO estimates that these provisions would decrease offsetting receipts and thus raise direct spending by about \$30 million annually over the 1999-2003 period because the Defense Department would probably substitute barter for sales.

The bill would extend the Export Administration Act (EAA) through September 30, 2001, and increase the maximum fines for violations of the act. CBO estimates that funding the Department of Commerce for the next two fiscal years to carry out the EAA would cost \$88 million if funding is maintained at the 1999 level or \$93 million if funding is increased each year for anticipated inflation. Higher fines would increase governmental receipts by \$4 million over the 2000-2004 period. CBO estimates that half that amount would be spent from the Crime Victims Fund.

The bill would permit the Coast Guard to sell excess equipment under the Arms Export Control Act. Collections from asset sales would generate less than \$1 million. CBO estimates that other provisions of the bill would cost \$1 million to \$2 million a year, assuming appropriation of the necessary amounts.

Section 4 of the Unfunded Mandates Reform Act (UMRA) excludes from application of that act legislative provisions that are necessary for the national security. CBO has determined that H.R. 973 fits within that exclusion.

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 973 is shown in the following table. The costs of this legislation fall within budget functions 050 (defense), 150 (international affairs), 370 (commerce and housing credit), and 400 (transportation).

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
<b>Direct Spending</b>						
Proposed Changes						
Estimated Budget Authority	0	30	30	30	30	31
Estimated Outlays	0	30	30	30	30	31
<b>Revenues</b>						
Proposed Changes						
Estimated Revenues	0	0	0	0	2	2
<b>Asset Sales <sup>a</sup></b>						
Proposed Changes						
Estimated Budget Authority	0	0	-1	0	0	0
Estimated Outlays	0	0	-1	0	0	0
<b>Spending Subject to Appropriation</b>						
Proposed Changes <sup>b</sup>						
Estimated Authorization Level	0	49	50	1	1	1
Estimated Outlays	0	42	48	8	3	1

- a. Under the Balanced Budget Act of 1997, proceeds from a nonroutine asset sale may be counted for purposes of pay-as-you-go scoring only if the sale would entail no net financial cost to the government. CBO estimates that the nonroutine asset sales that would result from enacting the bill would generate a net savings to the government, and therefore that the proceeds would be counted for pay-as-you-go purposes.
- b. These figures include funding for the EAA with adjustments for inflation. If spending were projected at the 1999 level, authorizations and outlays would be \$5 million less over the five-year period.

## **BASIS OF ESTIMATE**

Various provisions of H.R. 973 would affect direct spending, revenues, asset sales, and spending subject to appropriation.

### **Direct Spending**

**Equipment Stockpiles in Foreign Countries.** Title III would authorize an additional \$400 million worth of excess defense articles to be transferred to the War Reserve Stockpile for Allies (WRSA) in Korea and Thailand. In addition, the bill would permit the Secretary of Defense to augment defense appropriations by exchanging items in the WRSA for Korea and Thailand for cash, services, waiver of charges, and other items of value. Under current law, DoD has the authority to sell defense items from stock, but the cash proceeds from sales are returned to the Treasury. CBO expects that under the bill DoD would barter with Korea and Thailand instead of selling items to them. CBO estimates that, if the bill were enacted, forgone sales would total about \$30 million a year, based on information from DoD about how it used similar authority in the past. (In 1996, DoD negotiated a package of concessions with Korea for items from the WRSA that had a fair-market value of \$67 million. That amount represents the impact of similar authority that DoD had over a two-year period.) The forgone sales would reduce offsetting receipts, which are a credit against direct spending.

**Economic Sanctions.** Title V would give the President the authority to waive certain sanctions against India and Pakistan. In addition, section 607 would permanently exclude agricultural export credits from the list of mandatory sanctions in section 102 of the Arms Export Control Act (AECA). CBO estimates that enacting these provisions would have no significant effect on direct spending.

After India and Pakistan tested nuclear devices in 1998, the President was required to impose sanctions under section 102 of the AECA. The sanctions cut off credits, credit guarantees, and other financial assistance to these countries from all U.S. government agencies. Subsequently, the Agriculture Export Relief Act of 1998 (Public Law 105-194) removed the credit programs of the Department of Agriculture from the mandatory sanctions through September 30, 1999, and the India-Pakistan Relief Act of 1998 (part of Public Law 105-277) gave the President authority to waive the application of economic sanctions against India or Pakistan. Therefore, CBO estimates that title V would probably not have a significant budgetary effect with respect to assistance for India and Pakistan.

If new sanctions were imposed against countries other than India or Pakistan under the AECA, section 607 of H.R. 973 could affect direct spending because programs to guarantee loans for agricultural commodities would be denied those countries under current law. CBO cannot predict the likelihood or extent of future sanctions under the AECA, but such sanctions rarely affect the use of agricultural export credits. It is therefore unlikely that enacting section 607 would have a significant budgetary impact in any one year.

**Other Direct Spending Provisions.** Section 201 would permit foreign persons receiving training under the AECA to complete their course of study even when assistance to their country of origin would otherwise be terminated. The authority would be discretionary and would apply to terminations after the date of enactment. CBO estimates that enactment of the section would not significantly affect the federal budget.

Section 207 would authorize DoD to charge a fee for the administrative costs of leasing defense articles under the AECA. Leases administered by DoD generate about \$40 million per year in offsetting receipts, and DoD leases some defense articles for no charge. Based on information from the department, CBO estimates that DoD would collect and spend less than \$1 million under this provision.

## **Revenues**

Section 608 would extend the Export Administration Act through September 30, 2001. Since the expiration of the EAA in 1994, criminal and civil penalties for violating export control laws have been collected under the Economic Emergency Powers Act. H.R. 973 would transfer the authority to levy fines back to the EAA and would significantly raise the maximum criminal and civil penalties. On average, about three years usually elapse between the initial investigation of violations and the time when the penalty is imposed. Fines are based on the law in force at the start of an investigation. Assuming an effective date of September 30, 1999, CBO does not expect penalties under the new law to be collected until fiscal year 2003. Based on information from the Department of Commerce, CBO estimates that receipts from penalties would increase by \$2 million in each of fiscal years 2003 and 2004, net of income and payroll tax offsets.

Collections of criminal fines are deposited in the Crime Victims Fund and are available for expenditure in the following year. Roughly half of the increase in governmental receipts, or \$1 million a year, is estimated to be criminal fines. Direct spending from the Crime Victims Fund would equal the criminal fines collected with a one-year lag.

## Asset Sales

Section 202 would permit the sale of excess Coast Guard equipment under the AECA. The Coast Guard usually disposes of excess defense articles by making grants under section 516 of the Foreign Assistance Act of 1961, but it has been asked to sell one vessel with an estimated market value of approximately \$500,000. CBO estimates the sale would occur in 2001, when that vessel would be taken out of service.

## Spending Subject to Appropriation

**Export Administration Act.** The Bureau of Export Administration (BXA) within the Department of Commerce is responsible for implementing the EAA. Based on information from the Department of Commerce, CBO estimates that BXA will use about 85 percent of its \$52 million appropriation for this year to implement the EAA. Assuming historical spending patterns and allowing for cost increases, CBO estimates that implementing section 608 would cost \$93 million over the 2000-2003 period.

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
<b>Spending Subject to Appropriation</b>						
EAA Spending Under Current Law by the Bureau of Export Administration						
Estimated Authorization Level <sup>a</sup>	44	0	0	0	0	0
Estimated Outlays	43	6	2	0	0	0
Proposed Changes						
Estimated Authorization Level <sup>b</sup>	0	46	47	0	0	0
Estimated Outlays	0	39	45	7	2	0
EAA Spending Under H.R. 973 by the Bureau of Export Administration						
Estimated Authorization Level <sup>a</sup>	44	46	47	0	0	0
Estimated Outlays	43	45	47	7	2	0

a. The 1999 level is 85 percent of BXA's total 1999 appropriation of \$52 million.

b. CBO estimates that extending the EAA through 2001 would cost \$93 million, assuming increases to cover anticipated inflation. Alternatively, if funding is maintained at the 1999 level, the cost of the two-year extension would be \$88 million.

**International Arms Sales Code of Conduct.** Title IV would require the President to negotiate an agreement with major arms exporting countries to restrict or prohibit arms transfers to countries that do not respect democratic processes and the rule of law, do not adhere to internationally recognized norms on human rights, or are engaged in acts of armed aggression. The bill would require a semiannual report on the progress of the negotiations. CBO estimates that implementing these provisions would not result in a significant added cost to the government because the United States is engaged in ongoing diplomatic efforts on arms sales, and the requirements of the bill would not add significantly to that workload.

**Excess Defense Articles.** Title I of the bill would authorize DoD to pay for the packing, crating, handling, and transportation of excess defense articles transferred to countries participating during 2000 and 2001 in the Partnership for Peace program with the North Atlantic Treaty Organization. Based on information from DoD, CBO estimates that the department would spend up to \$2 million each year on such activities, subject to the appropriation of the necessary funds.

**Other Foreign Military Sales Authorities.** The bill would require additional Congressional notifications and reports on military sales. Because the Administration does not currently gather some of the required information, CBO estimates that carrying out the new requirements would cost \$1 million a year, assuming appropriation of the necessary funds.

**PAY-AS-YOU-GO CONSIDERATIONS**

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	0	30	29	30	30	31	1	0	0	0	0
Changes in receipts	0	0	0	0	2	2	0	0	0	0	0

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

Section 4 of UMRA excludes from the application of that act legislative provisions that are necessary for the national security. CBO has determined that the provisions of this bill fit within that exclusion.

### **ESTIMATE PREPARED BY:**

Federal Costs: Mark P. Hadley prepared the estimate of extending the Export Administration Act, David B. Hull prepared the estimate of waiving economic sanctions, and Joseph C. Whitehill prepared the estimate of all other provisions.

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### **ESTIMATE APPROVED BY:**

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